

DEPARTMENT OF STATE REVENUE

Information Bulletin #86
Sales Tax
December 2014
(Replaces Tax Policy Directive #8 dated September 2009)
Effective Date January 1, 2015

SUBJECT: Application of Sales and Use Tax to Demonstrator Automobiles

REFERENCES: [IC 6-2.5-3-2](#); [IC 9-13-2-42](#)(a); U.S. Treasury Reg. 1.132-5(o)(2); Revenue Procedure 2001-56; IRS Publication 463

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SUMMARY

This bulletin replaces Tax Policy Directive #8, and aside from nonsubstantive, technical changes, the bulletin updates the reference to federal regulations and other federal publications.

INTRODUCTION

The purpose of this bulletin is to provide an interpretation of the Indiana sales and use tax as it applies to the use of demonstrator automobiles, both new and used. "Automobile" or "vehicle" as used in this bulletin includes four-wheeled cars, trucks, or vans having a gross weight of not more than 8,500 pounds and motorcycles that are made primarily for use on public streets, roads, or highways. "Automobile" or "vehicle" does not include recreational vehicles. This bulletin is applicable to Indiana dealers as defined in [IC 9-13-2-42](#)(a) and all persons operating a vehicle with a dealer license plate.

DISCUSSION

The following instructions are effective as of Jan. 1, 2015:

1. The use of vehicles made available to school driver education programs or nonprofit organizations are not subject to the Indiana sales and use tax.
2. The use of vehicles provided to persons other than full-time salespersons (for example, family members, part-time salespersons, mechanics, managers of the dealership, and other individuals) are subject to use tax in an amount calculated as the Internal Revenue Service's optional business standard mileage rate contained in Internal Revenue Service Publication 463, multiplied by the Indiana sales tax rate. The vehicle dealer is required to pay the tax annually. Dealers are required to keep records of each vehicle, the miles driven, and the amount and date when use tax was paid for the miles driven.
3. In lieu of accounting for the miles driven, the dealer may elect to report the use tax on 2% of the dealer's cost of purchasing the vehicle for each month (or fraction of a month) that the vehicle is used as a demonstrator, multiplied by the Indiana sales tax rate.
4. The definition of "full-time salesperson" is synonymous with the definition provided in U.S. Treasury Reg. 1.132-5(o)(2), which provides that the salesperson spends at least one-half of a normal business day performing the function of a floor salesperson; works at least 1,000 hours per year; and derives 25% of his gross income from sales activities. Vehicles used by full-time salespersons for "qualified automobile demonstration use" are not subject to sales and use tax. "Qualified automobile demonstration use" means a vehicle:
 - a. Currently in the inventory of the dealership;
 - b. Available for test drives by customers during the normal business hours of the employer;
 - c. In which the salesperson has no personal possessions stored;
 - d. Only driven within the dealer's sales area. For the purposes of this directive, "dealer's sales area" means an area within a radius of 75 miles from the dealership;
 - e. Not used by individuals other than the full-time salesperson (for example, family members); and
 - f. That may not be used for personal trips.
5. Personal use of automobile demonstrators by full-time salespersons will be measured by the value reportable to the Internal Revenue Service or charged to the full-time salesperson in accordance with the provisions of Revenue Procedures 2001-56, multiplied by the sales tax rate.

CONCLUSION

The department recognizes and acknowledges that events unanticipated by this bulletin might arise, and in such case, the department should be contacted for guidance.

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Commissioner

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